

# **Report of the auditor-general to the Northern Cape Provincial Legislature and the council on the Namakwa District Municipality**

## **Report on the financial statements**

### **Introduction**

1. I have audited the financial statements of the Namakwa District Municipality set out on pages x to x, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Namakwa District Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

## **Emphasis of matter**

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### Restatement of corresponding figures

8. As disclosed in note 28 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during the year ended 30 June 2016 in the financial statements of the municipality.

## **Additional matters**

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Unaudited supplementary schedules

10. The supplementary information set out on pages x to x does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

### Unaudited disclosure notes

11. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

## **Report on other legal and regulatory requirements**

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## **Predetermined objectives**

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objective presented in the annual performance report of the municipality for the year ended 30 June 2016:
  - Objective 3: economic development, tourism and projects on pages x to x
14. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for Managing Programme Performance Information.
15. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
16. I did not raise any material findings on the usefulness and reliability of the reported performance information.

## **Additional matters**

17. Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected objective, I draw attention to the following matters:

## **Achievement of planned targets**

18. Refer to the annual performance report on pages x to x and x to x for information on the achievement of the planned targets for the year.

## **Unaudited supplementary schedules / information**

19. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

## **Compliance with legislation**

20. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

## **Procurement and contract management**

21. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of supply chain management regulation 17(a) and (c).



## **Human resource management and compensation**

22. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff in contravention of section 67(d) of the Municipal Systems Act.

## **Expenditure management**

23. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

## **Internal control**

24. I considered internal control relevant to my audit of the financial statements and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

## **Leadership**

25. The oversight functions did not identify and prevent instances of non-compliance during the year.
26. The council did not review all policies and procedures during the preceding financial year.
27. The municipality's action plan process to address internal and external audit findings relating to performance and compliance matters was not sufficient.
28. An information technology (IT) strategic plan and IT governance framework were not developed due to management not being aware that an IT strategic plan and framework needed to be developed. IT management was also not trained on developing IT strategic documents.

## **Financial and performance management**

29. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored.
30. Supporting documentation could not be provided for all transactions entered into by the municipality, as evidenced by employee files not being maintained for pensioners to confirm the accuracy of medical aid deductions.
31. Management did not implement the following daily and monthly controls as designed for the municipality's business processes:
- Asset reconciliations were not performed between the general ledger and the asset register.

- Lease reconciliations were not performed between the general ledger and the lease register.
32. Security controls were inadequate due to management not providing effective oversight over such controls. Furthermore, audit evidence was not provided due to management's failure to implement recommendations and track IT audit findings.
33. A disaster recovery plan was not developed due to a lack of skills and training on how to develop such a plan.

## Governance

34. The municipality's action plan process to address internal audit findings relating to performance and compliance matters was not sufficient.
35. The audit committee was in place, but did not adequately review the annual financial statements.

*Auditor-General*

Kimberley

30 November 2016



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*